

### **STATEMENT OF NET ASSETS**

Note: The following questions and answers were formulated using ASBO International's GASB Statement No. 34 Implementation Recommendations for School Districts (hereafter, referred to as ASBO's Implementation Recommendations). OPI supports ASBO's recommendations and encourages the use of this publication for further information and guidance. Other resources are GASB Implementation Guides (see GASB website at <http://www.gasb.org/repmodel/index.html>) and the AICPA (September 2002) Audits of State and Local Governments (GASB 34 Edition).

#### **Q: What is the Statement of Net Assets?**

A: The Statement of Net Assets is similar to a balance sheet. The fund equity information is presented in the Net Assets section. The bottom line, Total Net Assets, represents total assets minus total liabilities.

#### **Q: What is the difference between the "classified format" and the "liquidity format"? Which format should be used in preparing the Statement of Net Assets?**

A: Under the "*classified format*", assets and liabilities are categorized as current (those the district expects to use or pay in one year or less) than one year) or non-current (those the district expects to use or pay in more than one year). Under the "*liquidity format*" assets and liabilities are listed in order of their relative liquidity (assets) or maturity (liabilities).

At the district-wide level, GASB 34 prefers, but does not require, the liquidity format. For proprietary statements at the fund level, GASB 34 requires use of the classified format. ASBO recommends (and OPI agrees) use of the **classified format** presentation for the Statement of Net Assets. ASBO believes that consistency in presentation between the fund and district-wide presentations outweighs any advantages that may exist in presenting the liquidity format at the district-wide level.

#### **Q: What are capital assets?**

A: Capital assets include land, buildings and machinery and equipment.

#### **Q. Are all capital assets depreciated?**

A: No, inexhaustible assets, such as land, are not depreciable, and are reported on the statement at their historical cost or fair value at date of donation. Land improvements that do not require maintenance or replacement or do not deteriorate with use or passage of time are added to the cost of the land and are not depreciable. Exhaustible assets, such as land improvements (e.g. parking lots, landscaping and fencing), buildings and equipment, are depreciable, and are reported on the statement at their original or estimated historical cost net of accumulated depreciation.

**Q: How should capital assets and the associated depreciation be reported on the Statement of Net Assets?**

A: GASB 34 allows accumulated depreciation to be reported separately from capital assets, or capital assets may be presented net of accumulated depreciation. OPI agrees with ASBO's recommendation to report both the historical cost and accumulated depreciation in the face of the Statement of Net Assets.

**Q: How should liabilities be presented on the Statement of Net Assets?**

A: OPI recommends that liabilities be listed as current and non-current, using the classified format. If the liquidity format is used instead, liabilities should be listed in order of how quickly they must be repaid.

**Q: Where is fund balance reported?**

A: Fund balance information is essentially included the Net Assets section.

**Q: How should Net Assets be reported on the Statement of Net Assets?**

A: At the district-wide level, Net Assets are reported as follows:

1. **Capital assets net of related debt.** This is defined as capital assets, less the outstanding debts incurred by the district to buy or construct those assets, and less accumulated depreciation.
2. **Restricted assets.** The use of these assets is restricted to a particular purpose, for example, repayment of debt, unspent amounts borrowed for capital projects, or endowments. The individual amounts are listed by category, i.e., Debt Service, Capital Projects, Other, etc.
3. **Unrestricted assets.** These assets can be used for any purpose, but are not necessarily liquid, and do not fall under the first two categories.

**Q: Is it okay to report a negative balance for unrestricted net assets?**

A: A school district may not have accumulated enough resources to offset certain long-term liabilities, such as compensated absences, claims or judgments. These situations may result in a deficit of unrestricted net assets. ASBO encourages districts to consider the impact of reporting negative unrestricted assets. An aggressive capitalization policy, i.e. capitalizing more assets with a lower capitalization threshold, could help to prevent this from happening.